Ontario

DYNAMICS OF GROWTH

IS HIGH GROWTH SUSTAINABLE?

LEADING GROWTH FIRMS SERIES

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Table of Contents

Section — Page

Message from Ontario's Minister of Economic Development and Trade 1

Committing to Growth: Rewards Prevail over Setbacks 2

The Study 4

What We Learned 5
- Performance in boom periods 5
- What happened in the 1990 recession 6
- How firms bounced back from the recession 6
- Failure rates 6
- The extraordinary performance of the firms that never declined 7
- The scorecard at the end of the 12-year period 7
- Contribution to job creation 8
- Characteristics of leading growth firms 8

The CEOs' Perspective 10
- A commitment to growth (Jim Balsillie, Co-CEO of RIM) 10
- Setting a vision (Dave Boulanger, President and CEO of Supplierpipeline Inc.) 11
- Plateauing (Murray Gamble, COO of The C3 Group) 12
- Dealing strategically with setbacks (Lee McDonald, President and CEO of Southmedic Inc.) 13
- Starting again (Dave Killins, President and CEO of Foam-5 Fabricators Ltd.) 14

Conclusion 15

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DYNAMICS OF GROWTH: IS HIGH GROWTH SUSTAINABLE?

October, 2001

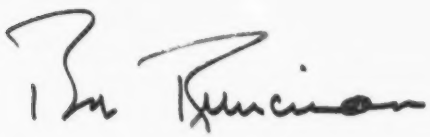
Job creation is the top priority for our government. We want to know more about the businesses that take a leadership role in creating employment in Ontario so we can do what is necessary to facilitate the creation of the conditions that nurture and support the competitiveness of these firms.

We have been studying the economic contribution of Ontario's leading growth firms, defined by the Ministry as small and mid-sized businesses that meet stringent criteria of rapid growth. This, the sixth in a series of publications, takes on some of the myths about the nature of risk in building high growth firms and offers some realities that should change how we think about leading growth firms, especially about their ability to sustain growth over time.

The Dynamics of Growth: Is High Growth Sustainable? provides evidence that reinforces what we have believed for some time, namely, that leading growth firms are a major source of new jobs in this province. What the study does for the first time is provide data indicating that this contribution is maintained over the longer term and is not, as was sometimes assumed, limited to an initial period of extraordinarily rapid growth.

The study shows that business leaders who commit themselves and their firms to an aggressive growth strategy are not taking a high risk approach. Rather, they experience a lower failure rate, add about one-third to one-half of all new jobs and bounce back more quickly than other firms when they do encounter setbacks. This study suggests that rapid growth is not the high risk strategy that some may have thought it was. In this environment of constant and dramatic change, the biggest risk of all is to take no risks.

The evidence in our study confirms that leading growth firms are a key strategic resource because of their ability to create and maintain jobs over the longer term. Our government believes that the future prosperity of this province depends on those individuals that push the economic envelope. All Ontarians benefit from their drive and determination, innovation and willingness to make the commitment to grow their firms.



Robert W. Runciman, MPP
Leeds-Grenville
Minister

COMMITTING TO GROWTH: REWARDS PREVAIL OVER SETBACKS

It is widely assumed that firms that grow rapidly have difficulty sustaining their growth and they frequently do not survive. The main reason for this perception is that rapid growth forces CEOs and their key managers to frequently change their strategy and the way they manage, usually with less margin of error than other firms – and this makes it harder to consistently make the right decisions.

There is another side to this coin, however. Every firm – whatever it does and whatever its orientation toward growth – faces continuous and unpredictable change, so the key to survival and prosperity for any CEO and management team is to be effective in managing change. In this context, the emphasis placed by leading growth firms on managing the effects and opportunities of change may just give them an edge in the longer term, despite the greater short-term risks. It may, in fact, be even riskier to not grow rapidly, because the absence of a growth orientation leaves the CEO and the management team ill-equipped to manage continuous change.

It boils down to a balancing act between, on the one hand, the increasing, short-term business risks of ratcheting up the rate of growth and, on the other hand, the long-term capacity of CEOs and their management teams to become better leaders and managers by coping with the self-induced challenges of managing leading growth firms.

TYPES OF FIRMS

Leading growth firms are firms that:

- Employ 20-500 people
- Grew their sales by 50% or more during a three-year period
- Are based in Ontario

In this study, the growth criterion was an increase of 40% or more in the firm's payroll. There are two sub-categories of leading growth firms:

- Controlled-growth firms that grew their payroll by 40%-99% during a three-year period
- Hyper-growth firms that grew their payroll by 100% or more during a three-year period

Non-expansionary firms are defined as having grown their payrolls by less than 40% during a three-year period. They comprise:

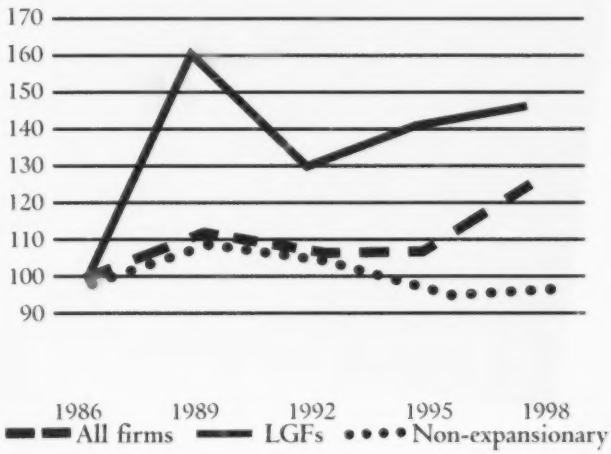
- Large firms (with more than 500 employees)
- SMEs (small and medium-sized enterprises, with fewer than 500 employees)

To explore these issues, the Ministry of Economic Development and Trade undertook this study to help it answer some key questions about high growth firms: Are they more likely to fail than their non-growth-oriented counterparts? Are they less likely to maintain their employment growth over time? Are they more likely to fare poorly in recessionary times and to recover more slowly, if at all?

The answers to these questions are especially relevant given the importance of high growth firms to Ontario as a key source of economic and employment growth. It makes a very big difference to the economy – not to mention the CEOs and employees of leading growth firms – whether individual

high growth firms can flourish for two decades or more or whether their contribution to the economy occurs in a much shorter timespan.

LEADING GROWTH FIRMS MAINTAINED THEIR LEAD, DESPITE SETBACKS



The study tracks the firms over a period of 12 years from 1986 to 1998, a period which is long enough to avoid short-term effects and which encompasses a complete business cycle. The period has been divided into four three-year periods, which clarifies the analysis. In the first period, 1986 to 1989, the leading growth firms are identified by their rapid growth; the subsequent nine years are used to assess what happened to them after their growth spurt, through the successive stages of the business cycle.

The study compares the medium-term outcome of leading growth firms with that of firms that did not grow rapidly. The resulting analysis supports the view that leading growth firms are critical to Ontario's economic present and future. They consistently out-performed firms that did not adopt a rapid-growth strategy. They had a lower failure rate and the best of them made a contribution to economic growth out of all proportion to their numbers. When they did retrench, they did so slightly more severely than their non-expansionary counterparts, but then they rebounded more strongly once the downturn was over. Only a small proportion of firms (15%) grew consistently throughout the 12 years. The rest had their ups and downs, some of them eventually going out of business. Taking all these patterns into account over the 12 years and netting out the employment losses during declining periods against the gains during growth periods, leading growth firms as a group grew significantly faster than non-expansionary firms. They increased their employment by 46%, compared to a decline of 3% in the latter.

Moreover, the firms that committed most aggressively to growth – hyper-growth firms – were the most successful of all in creating employment, while their failure rate was only marginally worse than that of the controlled-growth firms that preferred a more restrained growth rate.

The information provided in this report is supplemented by the detailed findings which will be available on the Ministry website.[1]

[1] This paper provides highlights of the research from *The Dynamics of Growth:Analytical Report*, published by the Innovation and Business Branch of the Ministry of Economic Development and Trade, 2001. The detailed analysis is available on the Ministry's website: www.ontario-canada.com/wisdomexchange

The Study

The statistics on which this analysis is based were generated from Statistics Canada's Longitudinal Employment Analysis Program[2] that tracks the performance of individual leading growth firms from 1983 to 1998, the most recent available data.

Statistics Canada identified all the firms in Ontario that met the criteria for leading growth firms during 1986 to 1989. It followed them for the subsequent nine years to 1998 and compared their performance with that of firms that did not meet the high growth criteria. Research to date[3] has shown that leading growth firms account for a disproportionate share of new jobs while they are growing rapidly, but scepticism remains about their ability to sustain growth over the long term.[4]

The 12-year period covered by the study was a particularly challenging environment in which to assess performance. From 1983 to 1989, employment grew at an average annual rate of 4.4%. Then, in the subsequent three years, from 1990 to 1992, a national recession caused provincial employment to decline by 8%. The recovery started in 1993, but only very slowly and with only minimal growth in employment. It was not until 1997 that overall provincial employment returned to 1989 levels.

Growth was measured in this study by the number of employees in a firm. While it is more common to measure growth by sales, employment numbers offered a more accurate measure of the management challenges created by growth. This approach also reduced the difficulties of comparing different types of businesses.

[2] The source for all the statistics in this study, unless otherwise noted, are *Employment Dynamics*, 1983-1998, published by Statistics Canada in 2001 and a special run of this data for the Innovation and Business Development Branch, singling out leading growth firms from the period 1986-1989 and tracking their progress up to 1998, along with a comparative analysis for all other firms (except startups). All analysis in this report is original work, based on the above raw data.
[3] *The Universe of Ontario's Leading Growth Firms*, Innovation and Business Development Branch, Ministry of Economic Development and Trade, 1999.
[4] *Job creation by company size class: The magnitude, concentration and persistence of job gains and losses in Canada*. By Richard Dupuy and Garnett Picot. Statistics Canada, 1998. This study concluded that one period of rapid growth is not a predictor for rapid growth in the subsequent period, suggesting that high-growth firms are an ephemeral phenomenon that creates intense short-term activity, but with few lasting effects for either their employees or the economy in general.

What We Learned

The four types of firms examined in the study – hyper-growth and controlled-growth firms (both components of leading growth firms), non-expansionary SMEs and large firms – all show distinct dynamics of growth and decline, though the findings show significant similarities between controlled-growth firms and non-expansionary SMEs.

Over the entire 12-year period from 1986 to 1998, it would have been difficult for any firm to grow as rapidly as it did during the boom years of 1986 to 1989. And, indeed, the study found that none of the four groups of firms came even close. The strongest growth in the final two periods came from hyper-growth firms, which added 11% to their employment in the fourth period. This was a long way from the 132% of the first period, but well ahead of the performance of other firms.

The study's findings are compared in the context of seven situations below, providing the major highlights of the research:

- Performance in boom periods
- What happened in the 1990 recession
- How firms bounced back from the recession
- Failure rates
- The extraordinary performance of the firms that never declined
- The scorecard at the end of the 12-year period
- Contribution to job creation

In addition, the characteristics of leading growth firms are discussed at the end of this section.

Performance in boom periods

The growth of the hyper-growth firms was spectacular, and provided the first indication that they were quite distinct from all other firms.

Employment growth in 1986-1989	
Hyper-growth	132%
Controlled-growth	29%
Non-expansionary SMEs	11%
Large firms	8%

Employment in controlled-growth firms grew by 29% during 1986 to 1989. (This growth is less than the criterion of 40%, but the criterion refers to payroll growth, not employment growth, and payroll usually grows faster than employment.)

The non-expansionary SMEs grew at less than half the rate of controlled-growth firms, while the large firms were the slowest to hire.

What happened in the 1990 recession

Not surprisingly, large firms were least vulnerable to the recession, while the most susceptible were hyper-growth firms, largely because of their extremely rapid growth between 1986 and 1989. Remarkably, only a third of the large firms declined during the recession years, compared to three-quarters of the hyper-growth firms. Controlled-growth firms were the least vulnerable of the SMEs, which suggests that those who preferred to moderate their growth rate were best-equipped to deal with an economic setback.

Performance in the period of 1989-1993

	% of firms that declined	Loss of employment
Hyper-growth	73%	-25%
Controlled-growth	62%	-14%
Non-expansionary SMEs	67%	-16%
Large firms	36%	-1%

Consequently, the large firms maintained a stable level of employment, while the hyper-growth firms dropped significantly. Among the SMEs, the controlled-growth firms were the least hardest hit, dropping 14%, or slightly better than the non-expansionary SMEs' 16%.

Looking at overall performance from 1986 to 1992, however, the hyper-growth firms came out ahead, because their growth was so strong in 1986 to 1989. Over that six-year period, hyper-growth firms grew by 73%, compared to 12% for controlled-growth, 7% for large firms and a decline of 6% for non-expansionary SMEs.

How firms bounced back from the recession

Employment growth 1992-1995 and 1995-1998

	1992-95	1995-98
Hyper-growth	8%	11%
Controlled-growth	6%	0%
Non-expansionary SMEs	-7%	2%
Large firms	-8%	4%

Despite the severe effects of the recession, hyper-growth firms bounced back most powerfully of the four types of firms in the second half of the 12-year period, accelerating as they went.

It is notable that the large firms declined significantly in 1992 to 1995 – their strong performance in the recession was really only a delayed reaction to economic conditions.

The controlled-growth firms came back well in the third period, but made no progress in the final period. This was only slightly better than non-expansionary SMEs, which did not bounce back at all in the third period, but started to recover in the final period.

Failure rates

This is perhaps the most striking difference between leading growth firms and non-expansionary

SMEs. It is not surprising that large firms had the lowest failure rate, because they have much greater resources to withstand setbacks, but the low failure rate for controlled-growth firms was unexpected. In fact, the ultimate failure rate for the hyper-growth firms did not exceed that of the controlled-growth firms by as much as might have been expected, considering the former's volatility in the first six years.

Percentage of firms that went out of business by 1998

Hyper-growth	30%
Controlled-growth	23%
Non-expansionary SMEs	43%
Large firms	12%

Finally, a measure of the fragility of firms that did not commit to growth was that almost half of the non-expansionary firms did not survive the 12 years in the study. This is clear evidence that the absence of a commitment to growth carries higher long-term risks than a strong orientation to growth.

The extraordinary performance of the firms that never declined

Employment growth, 1986-1998, of firms that never declined compared to all others

	Grew in all periods	Declined in one or more
Hyper-growth	542%	35%
Controlled-growth	151%	-12%
Non-expansionary SMEs	117%	-33%
Large firms	63%	-17%

The cumulative impact of a decline in any period is evident from this table. There were only 647 hyper-growth and 1,139 controlled-growth firms that grew in every one of the four periods, but these firms accounted for almost all the growth in the province.

Among the firms that declined in one or more periods, only hyper-growth firms managed to increase their employment over the 12 years – all the rest ended up worse off in 1998 than they had been in 1986.

The employment gains of the hyper-growth firms were especially striking, at 542%. Once again, the controlled-growth firms performed better – but not that much better – than non-expansionary SMEs.

The scorecard at the end of the 12-year period

Over the 12 years covered in this study, leading growth firms, particularly hyper-growth firms, were significantly more successful than other firms in growing their businesses and sustaining that growth.

Employment growth in 1986-1998

	% growth	Number of firms
Leading growth firms (total)	46%	11,554
Hyper-growth	107%	5,083
Controlled-growth	18%	6,471
Non-expansionary (total)	-3%	117,708
SMEs	-10%	117,036
Large firms	1%	672

As the table shows, leading growth firms increased their employment by 46%, while non-expansionary firms declined by 3%. Among leading growth firms, hyper-growth firms increased by 107%, compared to 18% for controlled-growth firms. In 1998, large firms were only marginally ahead of their employment levels of 12 years earlier.

Hyper-growth firms emerged as stronger performers overall. The key finding is that this stronger performance was a reflection as much of the disparity in growth rates in the first three-year period as it was of the hyper-growth firms' retaining their superior record of growth during the final six years, despite sharper cutbacks during the recession.

Contribution to job creation

Turning from the growth rates of the firms to the net economic effect of their growth, it is important to measure the contribution of each category of firms to the overall employment growth in the province. Perhaps the most remarkable indicator of the impact of hyper-growth firms is that they accounted for 34% of the new jobs created in the province during the 12-year period, exceeding the contribution of the large firms.

Share of total new jobs created in Ontario, 1986-1998	
Hyper-growth	34%
Controlled-growth	17%
Non-expansionary SMEs	17%
Large firms	25%

Once again, the controlled-growth firms were very close to the non-expansionary firms, although it should be noted that there were only 6,471 of the former, compared to 117,036 of the latter.

Characteristics of leading growth firms

Of the 316,071 firms in Ontario in 1989, less than 4% (11,554) met the criteria of leading growth firms for purposes of this study. Yet this group exerted a powerful influence on the economy as a whole, accounting for almost 17% of the employment in that year and more than 50% of the new jobs created in the province during the previous three years. Almost 50% of the leading growth firms (5,083) met the criteria for hyper-growth. These firms represented only 1.6% of the firms in the province, yet they accounted for 7.6% of total employment in 1989 and 33% of new jobs created in the previous three years.

All the tendencies of leading growth firms discussed above are heightened in the sub-set of firms that we are calling hyper-growth firms. They accounted for roughly half of the leading growth firms and their growth patterns were similar to, but more exaggerated than, the controlled-growth firms that made up the balance of the leading growth firms.

The distinction between the two classes of firms is important. Controlled-growth firms were not avoiding growth – they were not prepared to expand at more than a comfortable rate. Hyper-growth firms, by contrast, were prepared to expand as rapidly as circumstances allowed, thereby encountering greater risks, as well as greater opportunities.

Manufacturing played a much bigger role in leading growth firms, compared to non-expansionary firms. Not only did they represent a higher proportion of leading growth firms, but they were healthier than their counterparts in non-expansionary firms. Manufacturing firms accounted for

only 7% of all firms, but 22% of leading growth firms. And the growth rate of leading growth firms in manufacturing averaged almost 50% during 1986 to 1998, which is close to the average for all other industries. In the non-expansionary firms, by contrast, manufacturing was by far the weakest sector, declining by 18% over the 12 years, while other sectors grew by 1%.

Among the leading growth firms, hyper-growth firms were considerably smaller than controlled-growth firms when they started out, averaging, 30 and 53 employees, respectively. At the end of the 12-year study period, they were the same size, with 63 employees.

On the other hand, the firms that grew in all four three-year periods were more likely to be larger than firms that faltered in one or more of the periods. The study found that 28% of the consistent growth firms had 50 employees or more, compared to 21% of all other leading growth firms.

The record of job creation shows that the most difficult time to grow is when firms are engaged in making the transition from "one-person shows" to a professional management structure (usually when they have between 20 and 50 employees).[5] In this size grouping, leading growth firms experienced their lowest growth rates, while non-expansionary firms recorded their biggest declines.

The firms that grew in all four of the three-year periods were slightly larger than the remainder of the leading growth firms, with an average of 48 employees in 1986, which meant they were out of the difficult growth stage before the study began. By 1998, these firms averaged 170 employees, while the remainder of the firms had raised their average number of employees only marginally to 43 from 42.

While there is evidence that most leading growth firms had some difficulty sustaining consistently rapid growth, it is reasonable to conclude their commitment to grow did not waver. Overall, they were sufficiently successful to offer hope they can fulfill their promise of replacing the industrial giants in years to come.

[5] The *Six Stages of Growth*, #3 in the Leading Growth Firm Series of publications published by the Innovation and Business Development Branch, Ministry of Economic Development and Trade, 2001, is available on the Ministry's website: www.ontario-canada.com/wisdomexchange

The CEOs' Perspective

Leading and managing a high-growth firm demands unrelenting focus and a set of extraordinary skills. The CEOs of leading growth firms must deal with rapidly changing strategic circumstances and the need to hire, retain and motivate personnel appropriate to every stage on their growth path, all in a time frame that leaves them little room to manoeuvre and little margin for error.

The approach of CEOs of leading growth firms is quite different from that adopted by most other CEOs of SMEs. At least half of all firms in Ontario, as in most jurisdictions, are led by "lifestyle entrepreneurs," who are not interested in growth beyond the point at which they earn a satisfactory living for their family. What differentiates leading growth firms from non-expansionary firms is their consistent commitment to growth and their willingness to do whatever it takes to sustain that growth. They never abandon that combination of a vision and a path, no matter how often they may change the details to suit the circumstances, as Jim Balsillie, Co-CEO of RIM, so clearly shows.

A Commitment to Growth

In January, 2001, Jim Balsillie said, "As a company grows, many people who are in leadership positions become absolute victims of their own success, because of their inability to see their own strengths. The number one priority is an acute sense of self-awareness – knowing what you are good at and knowing what you are not good at. Hopefully, what you are good at is relevant to the company's going forward; and, hopefully, you anticipate what you're not good at and you get ahead of it and you strive to bring talent into the company that will complement your skills and enrich those areas that need it."

"I try and pace myself. A lot of what I do is about perspective – pace and being centred. I cannot predict the future. The facts will be what they will be. My hand may be forced – but it won't be because I had a short-term, selfish interest in strategy or because I didn't pay attention to what I had to do. Whatever happens, it will not be because of my lack of attention to what I need to do. I make plans, but maybe my abilities won't be right. Maybe my approach, or my perspective will be off. Those are the things I control and I try to make sure those are not the things that go wrong. But then there are the exogenous facts. I could have a heart attack. Or somebody could offer a ridiculous premium where the external shareholders basically force my hand."

"Our job is to run the company the best we can and keep the value as high as possible. And do our jobs overall. I don't really worry about it. There's not much I can do about it. I'm in it for the long haul."

Jim Balsillie,
Co-CEO
Research in Motion
Design and manufacture of hand-held communication devices

1993	
- sales	$300,000
- employees	20
2001	
- sales	$221 million
- employees	1,200

(Fiscal year-end is February)

Perhaps the most demanding aspect of running a leading growth firm is that there is seldom enough money or enough people to do everything that should be done. The CEO therefore has to devise innovative ways of getting it all done properly, regardless. This is what separates leading growth firms from large firms. The latter, because of their size, have access to sufficient resources so that their strategies can focus on balancing their goals against their resources. Their challenge is more one of choosing the most appropriate goals and of implementing the chosen strategy effectively. The CEOs of leading growth firms face all the same challenges, but without the same access to adequate resources.

Leading growth firms do not grow rapidly by accident – it results from the explicit commitment by the CEO and the firm's employees to grow their firms. A typical approach is that exemplified by David Boulanger, President and CEO of Supplierpipeline Inc. His commitment is common among the CEOs of leading growth firms; they want to grow; they measure themselves by their growth and they would rather sell their business (or part of their business) than settle for standing still.

Setting a Vision

In 1998, Dave Boulanger said, "I'd like to get to $15 million in two or three years. By that time, I'll be 37. Then I wouldn't mind buying a competitor in the U.S., doing $130 million now. My ownership may be diluted down, but I would be on the board or running it as CEO. I want to be able to have a big impact on the success of that organization. I'd like to do that but I'm not ready yet. I also don't want to sell out and retire. You only go through this once; this is not a rehearsal. When I take some cash out, I still want to be in a majority position or in a substantial ownership position." But he's careful not to seek sales at any price. "In 1996 we lost $330,000 because we were trying so hard to get market share that we lost sight of profits. It was the most expensive business management course I've ever taken!"

In October, 2000, the business model was strengthened with the inception of Supplierpipeline Inc. Basically, Supplierpipeline is the sales and marketing (and customer service) department for the manufacturing operations in Boulanger's group of companies. Supplierpipeline provides customers with a consolidated "one stop shop," accessing all plants in the group.

In April, 2000, Supplierpipeline Inc. doubled in size from $13 to $27 million in sales following a strategic acquisition of another manufacturing plant. "My expertise is growing in the area of acquisitions ... this is a key part of our growth strategy. The model is working very well now, since we're over our critical mass and our range of products is significant. The company is now on track to reach $100 million in the next three years' time!"

David Boulanger,
President and CEO
Supplierpipeline Inc.
Manufacturer and market quality and innovative hardware products for the retail and industrial markets

1993	
- sales	$1.2 million
- employees	30
1998	
- sales	$8 million
- employees	65
2001	
- sales	$27 million
- employees	160

Moreover, their commitment to growth is not merely a formless "wish list." These CEOs plot their courses; they articulate where they want to go and how to get there. There has to be a clear path that leads them there. The path can be very specific or it can be more of a general direction that people can follow with some leeway – but it is always a well-articulated path that every employee knows and understands.

Of course, the path they plan is seldom the exact route they ultimately take. Circumstances change, their resources change and the firms themselves change as they grow. Growing a business is not a linear process. Murray Gamble, COO of The C3 Group offers one perspective on how leading growth firms may, at some point along their growth path, pause for breath to regroup or consolidate in preparation for the next stage of growth.

PLATEAUING

In May, 1998, Murray Gamble said, "We're at a plateau right now. This past year we hit a heavy curtain – if not a wall. That's to say we got reorganized to go from $2-3 million up to a certain level, and we came to the conclusion that we've reached that level. We're efficient. Now we're in a period where we're reorganizing to start that growth spurt again. We're completely reorganizing now to be able to go, hopefully, well beyond $10 million and up to the $20 million mark. We're making the changes now that will allow us to get there, revamping our management structure to give us more capacity."

Later, in August, 2001, he said, "Most growing businesses plateau. I see our growth as a set of stair steps – you take quite a jump, then you need to stop and think about where you're going next, before you take the next step. This always happens, unless you're over-built and you can build a team ahead of your needs and avoid the stair step."

"A company is like a living being, because it's made up of people and they can't go at 110% all the time. We learn most when we're in a plateau – we think more. We don't think when we're going up a step, because it's difficult to do two or three things at once. Our best ideas all come when we're in a flat spot – and it's the same with people in their daily lives; their best ideas come at night or in the early morning, when they're not working."

Murray Gamble,
COO
The C3 Group
Engineering Contractors

1993	
- sales	$2.7 million
- employees	18
1997	
- sales	$7.2 million
- employees	75
2001	
- sales (est.)	$13 million
- employees	100

Sometimes, as is illustrated by the experience of Lee McDonald, President and CEO of Southmedic Inc., there are unforeseeable twists and turns along the path to growth that, through no fault of the CEO, require significant shifts in direction.

Dealing Strategically with Setbacks

In 1995, Southmedic Inc. acquired the distribution rights to a new product line in Canada. With 30 employees and approximately $2.9 million in sales at the time, the product was a line where R&D and launch costs were high, but payback would occur over a long period of time. "After launching the product, we saw it grow to nearly $1 1/2 million in sales," said Lee McDonald, "Then an unexpected setback occurred."

Southmedic Inc. had signed a five-year contract with a company when the CEO was bought out and was forced to leave due to circumstances beyond his control. The new owners owned a distribution network and were focusing on other areas, so they cancelled the contract during year one. McDonald said, "This line represented 50% of sales of our distribution network, and although short-term profits were not high, the long-terms profits of our own efforts would now be lost. It was a blow."

To deal strategically with this setback, McDonald decided not to take legal recourse, which would only cost more time and money. Instead, she called the new CEO and agreed to give up the line and provide the new owners with a smooth transition – but this would be done at a cost. She explained the benefits of the plan and how the payment would be used. "We have nine people and a corporation who have taken a year and a half to build this line, and they deserve to be compensated. I will pay part of it to the sales people, another part will go to pay back the corporation and the balance is for goodwill."

The CEO accepted the offer and Southmedic did receive full compensation. Goodwill has been maintained between the two firms over the years. Today, Southmedic is continuing to grow, has 61 employees and an estimated annual revenue of $12 million.

Lee McDonald,
President and CEO
Southmedic Inc.
Manufacture and distribution of medical and precision instruments

1994	
- sales	$2.9 million
- employees	30
1999	
- sales	$7.75 million
- employees	55
2002	
- sales (est.)	$12 million
- employees	61

(Fiscal year-end is February)

The catalyst for other tough decisions sometimes comes from within. CEOs may have to eliminate a division that is stretching their resources too far or sell their company or merge with another, to create a more powerful entity. They might even leave the company they have just grown to start all over again, building from the ground up as in the case of Dave Killins, President and CEO of Foam-5 Fabricators.

Starting Again

In 1998, after Dave Killins sold his controlling interest in Tecmar Technologies, he recounted a major decision he made at Tecmar to cut back employment, "We purchased a company in the U.S. and it had a factory in Singapore employing 400 people. Everyone thought that it was great – they were low cost, using semi-skilled or unskilled people from Malaysia. But it wasn't right. We had no business being in the manufacturing business. Our skills related to our engineering – we had nine patents and we had more on the way, so that was the business we were really good at, not to mention the designing. Let someone else build it. So we outsourced it."

Killins subsequently sold Tecmar when it came under intense competitive pressure and invested the proceeds in a minority holding in Games Trader Inc. This investment tripled the value of Tecmar's shares by the time he sold it, but Killins needed to be more than an investor. Two years ago, he bought Foam-5 Fabricators. "I am thoroughly enjoying myself running a small business again," he said in August, 2001, "we are growing at about 60% a year and ship products all over the world."

Dave Killins,
President and CEO
Foam-5 Fabricators
Plastics manufacturing
(former CEO
Tecmar Technologies
Peripheral hardware
developer)

Tecmar Technologies	
1994 - sales	$19 million
1997 - sales	$91 million
Foam-5 Fabricators	
2001	
- sales	$2 million
- employees	8

Finally, of course, there is always a significant percentage of firms that go out of business, often in a process lasting years, as they lay off staff in an attempt to keep going. However, these firms are outnumbered by the ones that overcome their setbacks and resume their growth. For the CEOs who devote so much time and effort to building these firms, there is clear evidence that they continue to be rewarded with impressive results.

Conclusion

The data generated by the study support a conclusion that high growth firms made an outstanding economic contribution in both the short and the long-term. The commitment of hyper-growth firms to grow was clearly more consistent and their ultimate results were superior to those of all other firms, even though they were clearly more volatile, with bigger movements in both directions.

By contrast, large firms were close to neutral in terms of employment. They reacted rather slowly to changes in the economy and when they did change, they did so incrementally. More than half of them (54%) declined in only one period or not at all.

In between these two extremes, controlled-growth firms performed rather better than non-expansionary SMEs, although not by a very large margin, especially in the final period.

While leading growth firms did not sustain the high growth rates they experienced during their initial growth spurts, they did maintain a superior growth rate over time. Hyper-growth firms bounced back well following an economic downturn, while controlled-growth firms held on to their gains without necessarily showing signs of resuming rapid growth. A commitment to moderate growth reduced the likelihood of a decline during the recession, while a commitment to hyper-growth increased it.

In summary, the benefits of a commitment to growth are clear. Over the full 12 years of the study, leading growth firms had a lower failure rate, smaller declines, a larger increase in employment and better resistance to adverse economic conditions. If Ontario is to replenish the small elite of its current corporate giants as they gradually move on, it is essential to have a healthy pool of leading growth firms that have the capacity to become the new mainstays of our economy.

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